

Message Text

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ACTION EB-08

INFO OCT-01 AF-08 ARA-06 EA-07 EUR-12 NEA-10 IO-13 ISO-00
L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGRE-00
AID-05 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02
SIL-01 STR-04 TRSE-00 CEA-01 OPIC-03 XMB-02 /110 W
-----180350Z 087070 /13

R 171753Z MAR 77
FM USMISSION USUN NEW YORK
TO SECSTATE WASHDC 2801
INFO USMISSION OECD PARIS
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PASS PPC/IA

E.O. 11652: N/A
TAGS: UN, AORG, UNCTAD
SUBJ: UNCTAD MEETING OF THE GROUP OF GOVERNMENTAL EXPERTS
ON THE CONCEPTS OF THE PRESENT AID AND FLOW TARGETS,
MARCH 7-16, 1977

REF: (A) TRADE PROSPECTS AND CAPITAL REQUIREMENTS OF DEVELOPING
COUNTRIES, 1976-1980 (TD/B/C.3/134 AND ADD.1);
(B) COMPLIANCE OF DONORS WITH UNCTAD AND OTHER UNITED
NATIONS RESOLUTIONS (TD/B/C.3/AC.7/7)
(C) STATISTICAL INFORMATION NEEDS WITH RESPECT TO DEVELOP-
MENT FINANCE (TD/B/C.3/AC.7/8)
(D) STATISTICS OF FLOWS OF DEVELOPMENT FINANCE, 1973-1975
(TD/B/C.3/AC.7/R.1)

SUMMARY: THE THIRD MEETING OF THE GROUP FIRST DISCUSSED
A MODELLING EXERCISE INDICATING THE NEED TO SUBSTANTIALLY
INCREASE ASSISTANCE IF THE GNP GROWTH TARGETS OF THE INTER-
NATIONAL DEVELOPMENT DECADE WERE TO BE ACHIEVED. ALTHOUGH
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THERE WAS BROAD AGREEMENT THAT OFFICIAL DEVELOPMENT ASSIS-
TANCE SHOULD BE INCREASED, THE MORE RADICAL IMPLICATIONS
OF THIS EXERCISE WERE NOT ACCEPTED. THE PRINCIPAL WORK
OF THE GROUP CENTERED ON DISCUSSION OF HOW THE STATISTICAL
FRAMEWORK FOR REPORTING DEVELOPMENT FINANCE FLOWS TO DE-
VELOPING COUNTRIES COULD BE IMPROVED ESPECIALLY IN LIGHT
OF THE EMERGENCE OF NEW SOURCES OF FINANCE WHICH ARE NOT

BEING ADEQUATELY DOCUMENTED. THE GROUP DECIDED TO RECOMMEND THAT IT SERVE AS A POINT OF COORDINATION FOR EFFORTS TO IMPROVE THE STATISTICAL FRAMEWORK. END SUMMARY.

1. THIS WAS THE THIRD MEETING OF THE GROUP, PREVIOUS SESSIONS HAVING BEEN HELD IN 1973 AND 1974. PARTICIPANTS INCLUDED REPRESENTATIVES FROM SEVEN DAC MEMBER COUNTRIES, SIX NON OIL PRODUCING LDCS AND TWO OPEC COUNTRIES, AS WELL AS OBSERVERS FROM THE OECD, IMF, OPEC SPECIAL FUND, WORLD BANK, THE JOINT IMF/WORLD BANK DEVELOPMENT COMMITTEE, UNDP, THE UN DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS AND THE USSR. FOLLOWING A BRIEF INTRODUCTION BY THE UNCTAD SECRETARIAT (ARSENIS), THE GROUP ELECTED THE UK REPRESENTATIVE, WILLIAM KENDALL, AS CHAIRMAN. THE SOMEWHAT DISORGANIZED LDC REPRESENTATIVES WERE UNABLE TO AGREE ON A CANDIDATE FOR RAPPORTEUR; HENCE THIS FUNCTION WAS ASSUMED BY THE SECRETARIAT.

2. ADEQUACY OF TARGETS. THE SECRETARIAT OPENED THE DISCUSSION WITH A REMINDER THAT SEVEN YEARS AGO WHEN THE UN GENERAL ASSEMBLY LAUNCHED THE SECOND DEVELOPMENT DECADE (DD II), GOVERNMENTS PLEDGED TO TAKE THE MEASURES NECESSARY TO SUPPORT A MINIMUM ANNUAL AVERAGE GROWTH RATE FOR LDC ECONOMIES OF 6 PERCENT FOR THE 1970'S WITH A POSSIBLE ACCELERATION DURING THE LATTER PART OF THE DECADE. AT THAT TIME, ON THE BASIS OF ANALYSIS, IT WAS DETERMINED THAT TO ACHIEVE THE GROWTH OBJECTIVES LDCS WOULD REQUIRE FINANCING FROM ABROAD EQUIVALENT TO ONE PERCENT OF THE GNP OF THE DEVELOPED COUNTRIES AND THAT OF THIS TOTAL LIMITED OFFICIAL USE

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70 PERCENT SHOULD BE IN THE FORM OF OFFICIAL DEVELOPMENT ASSISTANCE (ODA), THESE TARGETS, THEREFORE, BECAME A BASIS FOR ASSESSING DONOR COUNTRY PERFORMANCE. DRAWING UPON ITS 1976 STUDY, "TRADE PROSPECTS AND CAPITAL REQUIREMENTS OF DEVELOPING COUNTRIES, 1976-1980," THE UNCTAD SECRETARIAT POINTED OUT THAT WHILE CONDITIONS IN THE EARLY YEARS OF THE DECADE WERE BROADLY COMPATIBLE WITH THE TARGETS, SUBSEQUENT DRAMATIC CHANGES IN THE WORLD ECONOMY HAD MATERIALLY ALTERED THE SITUATION. ACCORDING TO THE 1976 STUDY, WHICH IS BASED ON RATHER ELABORATE AND SOPHISTICATED ECONOMETRIC MODELLING, IF THE LDCS ARE TO REACH THE 6 PERCENT GROWTH TARGET SET FOR DDII, THEN DURING 1976-1980 THE REQUIRED EXTERNAL FINANCING WOULD AMOUNT TO ABOUT 1.5 PERCENT OF THE GNP OF THE DEVELOPED COUNTRIES, AN AMOUNT WHICH ON AN ANNUAL BASIS WOULD BE APPROXIMATELY DOUBLE THE ACTUAL FLOW IN 1975. FROM THE RESULTS OF THE MODELLING EXERCISE IT WAS FURTHER OBSERVED THAT UNLESS THE ODA TARGET WAS MET, THE DEBT SERVICE BURDEN OF THE LDCS COULD

REACH UNACCEPTABLE HIGH LEVELS BY THE END OF THE DECADE. THE SECRETARIAT CONCLUDED THAT EVEN ON OPTIMISTIC ASSUMPTIONS THE CAPITAL REQUIREMENTS OF THE LDCS WERE NOW MUCH LARGER THAN HAD BEEN ANTICIPATED AT THE BEGINNING OF THE DECADE AND THAT THIS SUGGESTED A NEED FOR RECONSIDERATION OF THE ADEQUACY OF THE FINANCIAL ASSISTANCE TARGETS.

3. IN RESPONSE TO THIS PRESENTATION THE US REP (KAUFFMAN) POINTED OUT THAT DESPITE IMPROVEMENTS IN MODELLING, RIGIDITIES EMBODIED IN SUCH ECONOMETRIC EXERCISES CAST DOUBT UPON THE VALIDITY OF THEIR RESULTS. HE FURTHER OBSERVED THAT GNP GROWTH WAS AN INADEQUATE INDICATOR OF DEVELOPMENTAL PERFORMANCE AND GNP TARGETS WERE THEREFORE NOT A SUFFICIENT BASIS FOR DETERMINING DEVELOPMENT FINANCE REQUIREMENTS, WHICH COULD ONLY BE APPRECIATED FULLY THROUGH ANALYSIS AT THE COUNTRY LEVEL. THE US REP ALSO SUGGESTED THAT THE MODELLING APPROACH WAS MORE APPROPRIATE AS AN LIMITED OFFICIAL USE

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INDICATOR OF THE SHORT TERM BALANCE OF PAYMENTS SITUATION THAN AS A BASIS FOR DEALING WITH LONGER TERM DEVELOPMENT PROBLEMS. IN SUPPORTING THE US STATEMENT THE JAPANESE REPRESENTATIVE NOTED THE PROBLEM OF ABSORBTIVE CAPACITY FOR DEVELOPMENT FINANCING AS EVIDENCED BY THE GROWING PIPELINE IN THE JAPANESE ASSISTANCE PROGRAM.

4. DEFINING ODA: THE GROUP REVIEWED VARIOUS PROPOSALS FOR ALTERING DEFINITIONS OF ODA, PARTICULARLY TO RAISE THE MINIMUM GRANT ELEMENT REQUIREMENT FROM 25 PERCENT TO 50 PERCENT AND THE ALTERNATIVE APPROACH OF USING THE GRANT EQUIVALENT CONCEPT TO MEASURE ODA. WHILE BOTH THE ADVANTAGES AND DISADVANTAGES OF THESE PROPOSALS WERE DISCUSSED, NO AGREEMENT WAS REACHED TO RECOMMEND CHANGES IN THE PRESENT DEFINITIONS AND METHODS.

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SIL-01 STR-04 TRSE-00 CEA-01 OPIC-03 XMB-02 /110 W
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5. TERMS OF ASSISTANCE. THE GROUP AGREED THERE WERE NOT SUFFICIENT GROUNDS FOR SUPPORTING CHANGES IN RECOMMENDATIONS FOR ODA TERMS. EXPERTS FROM DONOR COUNTRIES STRESSED THE NEED TO PRESERVE FLEXIBILITY IN ADJUSTING TERMS TO REFLECT THE VARYING CIRCUMSTANCES OF THE LDCS. WITH RESPECT TO HARMONIZATION OF TERMS AT THE COUNTRY LEVEL, IT WAS NOTED THAT THE ESTABLISHMENT BY DAC OF A SEPARATE TERMS RECOMMENDATION FOR ODA FLOWS TO THE LEAST DEVELOPED COUNTRIES CONSTITUTED AN IMPORTANT FIRST STEP.

6. TARGETS. WITH RESPECT TO ODA THE GROUP ACKNOWLEDGED THAT DESPITE THE INCREASE IN VOLUME AND THE ENCOURAGING PERFORMANCE OF SOME COUNTRIES, ON PRESENT TRENDS IT WAS UNLIKELY THAT THE DONOR COUNTRIES AS A GROUP WOULD REACH THE 0.7 PERCENT TARGET BY 1980. VARIOUS PROPOSED MEANS OF INCREASING ODA SUCH AS TAXES ON POLLUTANTS AND ON RESOURCES FROM THE SEABED WERE NOTED, BUT SOME DONOR COUNTRIES EMPHASIZED THAT THE MEANS USED TO MOBILIZE ODA FUNDS WERE ESSENTIALLY AN INTERNAL CONCERN. WITH RESPECT TO THE ONE LIMITED OFFICIAL USE

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PERCENT TARGET, MANY EXPERTS FELT THAT THIS NOW SHOULD BE CONSIDERED AS A BROAD INDICATOR OF FINANCIAL COOPERATION.

7. PRIVATE FLOWS. IT WAS RECONGIZED THAT APPROPRIATE POLICIES WERE REQUIRED IN BOTH RECIPIENT AND CREDITOR COUNTRIES TO ENCOURAGE PRIVATE FLOWS AND THAT RECENT GROWTH IN THE RELIANCE UPON PRIVATE BANKING FLOWS HAD COMPLICATED THE EXTERNAL FINANCIAL POSITION OF SOME LDCS. NOTE WAS TAKEN OF THE WORK BEING DONE ELSEWHERE ON CAPITAL MARKET ACCESS AND ITS RELATIONSHIP TO THIS PROBLEM.

8. IMPROVED STATISTICS. LENGTHY CONSIDERATION WAS GIVEN TO THE EMERGENCE OF NEW SOURCES OF FINANCE FOR THE LDCS SUCH AS EURO-CURRENCY FLOWS, OPEC ASSISTANCE AND RECENT ADDITIONS TO THE FACILITIES OF THE IMF. THE EFFORTS MADE

BY VARIOUS REPORTING CENTERS SUCH AS THE OECD TO DOCUMENT SUCH FLOWS WERE REVIEWED, AND IT WAS DECIDED THAT IT WOULD BE DESIRABLE TO WORK TOWARDS THE CREATION OF AMORE SYSTEMATIC AND COMPREHENSIVE STATISTICAL FRAMEWORK TO DOCUMENT FLOWS AND LAY AN IMPROVED FOUNDATION FOR ANALYSIS OF THE RELATIONSHIPS BETWEEN FINANCE AND DEVELOPMENT. WHILE RECOGNIZING THAT INSTITUTIONS COLLECT STATISTICS FOR THEIR OWN PURPOSES, THE GROUP RECOMMENDED CLOSER CONSULTATION AND COLLABORATION AMONG THE EXISTING INTERNATIONAL DATA COLLECTING CENTERS WITH A VIEW TOWARDS THE INTRODUCTION OF AGREED UNIFIED CONCEPTS SUITABLE FOR INTERNATIONAL USE. IN THIS CONNECTION THE GROUP AGREED THAT IT COULD ATTEMPT TO PLAY A COORDINATING ROLE. THE REPORT OF THE MEETING THEREFORE RECOMMENDS THAT THE FUNCTIONS OF THE GROUP OF GOVERNMENTAL EXPERTS SHOULD INCLUDE, INTER ALIA, THE REVIEW OF PROGRESS REPORTS PREPARED BY THE UNCTAD SECRETARIAT ON THE WORK OF THE VARIOUS DATA COLLECTING CENTERS, THE CONSIDERATION OF WHETHER DATA CAN BE PUT ON A SUFFICIENTLY CONSISTENT BASIS FOR A COMPREHENSIVE STATISTICAL FRAMEWORK, AND THE CONSIDERATION OF IMPLICATIONS SUCH DATA AND ANALYSIS THEREOF MIGHT HAVE FOR THE DEVELOPMENT STRATEGY, LIMITED OFFICIAL USE

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INCLUDING THE CONCEPT OF TARGETS AND INDICATORS TO MEASURE FINANCIAL COOPERATION FLOWS.

9. COMMENTS.

A. WHILE THE SECRETARIAT PRESSED HARD TO GAIN RECOGNITION FOR THE RESULTS OF ITS MODELLING EFFORT, THE GROUP WAS UNWILLING TO ACCEPT THE IMPLICATIONS AS PRESENTED. WHILE THE NEED FOR INCREASES IN ODA WAS BROADLY AGREED, THERE WAS NO INCLINATION ON THE PART OF THE GROUP TO DISCUSS ALTERATIONS IN TARGETS.

B. FROM THE SECRETARIAT'S PAPERS IT APPEARED THAT UNCTAD WAS ATTEMPTING TO ASSUME A NEW ROLE IN THE STATISTICAL FIELD THAT EVENTUALLY WOULD PUT IT IN AN AUTHORITATIVE POSITION. AS A RESULT OF THE DELIBERATIONS, HOWEVER, IT IS CLEAR THAT THIS ROLE, WHILE POSSIBLY BECOMING MORE IMPORTANT, WILL BE SUITABLY CIRCUMSCRIBED.

C. WHILE UNCTAD MAY ASSIST IN OBTAINING IMPROVED DATA FROM DEVELOPING COUNTRIES, ESPECIALLY OPEC MEMBERS, INTERVENTIONS BY THE USSR OBSERVER MADE ABSOLUTELY CLEAR THAT NO COOPERATION IN THIS MATTER CAN BE EXPECTED FROM THE CMEA MEMBERS.

D. BECAUSE THE REPRESENTATION FROM LDCS WAS RELATIVELY WEAK, THE ACTUAL DISCUSSIONS WERE DOMINATED BY THE

DEVELOPED COUNTRY REPRESENTATIVES. DURING THE REVIEW OF THE DRAFT REPORT, HOWEVER, THE LDC INTERVENTIONS INCREASED MARKEDLY IN FREQUENCY AND SHARPNESS. THE REPORT, THEREFORE, IS MORE NEARLY A TRUE COMPROMISE DOCUMENT THAN IT OTHERWISE MIGHT HAVE BEEN. HOWEVER, IT STILL IS SOMEWHAT WEIGHTED TOWARDS DEVELOPED COUNTRY VIEWS.

E. ALTHOUGH THIS MEETING LARGELY AVOIDED POLITICAL CONFRONTATION, THERE NEVERTHELESS WAS A POLITICAL UNDER-LIMITED OFFICIAL USE

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CURRENT THAT MAY AGAIN SURFACE IN RELATED FORA WHEN DONOR COUNTRY PERFORMANCE AGAINST TARGETS IS AGAIN DISCUSSED IN THE CONTEXT OF LDC REQUIREMENTS AND EXPECTATIONS. IN THIS CONNECTION IT WAS OF INTEREST THAT OPEC COUNTRIES DID NOT CONSIDER THAT THE WORD "DONOR" APPLIED TO THEM, ALTHOUGH THEY APPEAR TO BE WILLING TO REPORT ON THEIR FINANCIAL ASSISTANCE ACTIVITIES.

F. UNCTAD EVIDENTLY CHOSE TO HOLD A MEETING OF THE GROUP AT THIS TIME, DESPITE SOMEWHAT INADEQUATE PREPARATIONS, BECAUSE IT WISHED TO HAVE THE GROUP'S VIEWS BEFORE THE SUBJECTS DISCUSSED CAME UP AT THE NEXT TRADE AND DEVELOPMENT BOARD MEETING SCHEDULED TO BEGIN APRIL 25.

G. U.S. REPS ARE HANDCARRYING A DRAFT VERSION OF THE FINAL REPORT TO WASHINGTON. THE OFFICIAL VERSION (REPORT OF THE GROUP OF GOVERNMENTAL EXPERTS ON THE CONCEPTS OF THE PRESENT AID AND FLOW TARGETS ON ITS THIRD SESSION. (TD/B/C/13/AC.7/9) SHOULD BE AVAILABLE WITHIN A FEW DAYS.
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Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977USUNN00792
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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From: USUN NEW YORK
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770348/aaaabpor.tel
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Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3072812
Secure: OPEN
Status: NATIVE
Subject: UNCTAD MEETING OF THE GROUP OF GOVERNMENTAL EXPERTS ON THE CONCEPTS OF THE PRESENT AID AND FLOW TARGETS, MARCH 7-16, 1977
TAGS: AORG, UN, UNCTAD
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/a1027db6-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009